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TABLE OF CONTENTS

LIST OF ACRONYMS

AIC	Association d'Interets Collectifs
AJP	Association des Jeunes Promoteurs
APB	Association Professionnelle des Banques
API	Agence de Promotion Industrielle
BCT	Banque Centrale de Tunisie
CEPEX	Centre de Promotion des Exportations
CGC	Caisse Generale de Compensation
EMBO	Employee/Management Buy Out
ESOP	Employee Stock Ownership Plan
FREP	Fond de Restructuration des Enterprises Publiques
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GOT	Government of Tunisia
IACE	Institut Arabe des Chefs d'Entreprise
IFE	L'Institut de Fondation de l'Entreprise
IMF	International Monetary Fund
LTDH	Ligue Tunisienne Pour la Defense des Droits de L'Homme
MDS	Mouvement des Democrates Socialiste
MUP	Mouvement de l'Unite Populaire
NADHOT	North American Degree Holders of Tunisia
PCT	Parti Communiste Tunisien
PE	Public enterprise
POCT	Parti Ouvrier Communiste Tunisien
PSD	Parti Socialiste Destourien
PSP	Parti Social pour le Progres
PUP	Parti de l'Unite Populaire
RCD	Rassemblement Constitutionnel Democratique
RSP	Rassemblement Socialiste Progressiste
SAP	Structural Adjustment Program
TASK	Tunisian Association for Scientific Knowledge
TD	Tunisian Dinar
TPP	Tunisian Privatization Program
TSS	Tunisian Scientific Society
UDU	Union Democratique Unioniste
UGTT	Union Generale des Travailleurs Tunisiens
UTICA	Union Tunisienne de l'Industrie, du Commerce, et de l'Artisanat

iv

EXECUTIVE SUMMARY

This document offers an overview of the political economy of liberalization in Tunisia. The problems of economic development are analyzed, as are the solutions that have been adopted to address these challenges. The political context of economic decentralization is also given priority with attention to the differential impact of the reform process on the various social groups that make up the Tunisian population. The amenability of existing state structures to change is assessed and the principal political constraints to reform identified.

Tunisia has often been cited as a model among Arab countries for its many past accomplishments since independence and its present commitment to implement economic reforms essential to furthering the process of development. The country ranks among the top in the region in terms of education, family planning, the rights of women, and a homogenous political culture. Although the political legitimacy of the state declined during the latter years of President Bourguiba's rule, there was a peaceful transition of power in 1987. It ushered in a new era of hope that the regime would be able to "reforge" a national consensus over the country's developmental priorities and political system. President Ben Ali began his presidency with promises of profound political liberalization to accompany the already ongoing economic reforms that were part of the country's structural adjustment program. The prospect of democratizing reforms was greeted with enthusiasm by virtually all strands of the political spectrum in a remarkable reaffirmation of national unity.

But the enthusiasm over the potential of a new national pact was to fade as the government backed away from the liberalizing reforms in the early 1990s. The principal cause for the apparent suspension of the political reform process was the government's decision to give priority to its campaign against the Islamic fundamentalists. This campaign has featured a high degree of repression, with a stifling impact on political expression and dialogue. The Tunisian scene has consequently become quite polarized, rendering genuine moves towards democratization extremely controversial. The situation in neighboring Algeria, where the Islamists almost came to power through the ballot box before the army stepped in, has cast a pall over Tunisian attempts to open up their own political system.

The political impasse which slowed down the reform process has come at a particularly bad time for the Tunisian state. The government is in the midst of applying a broad series of economic measures linked together in its structural adjustment program. This program seeks to reduce the control of the state over the economy in favor of the private sector. The move towards structural adjustment was necessitated by a severe financial crisis during the mid 1980s that obliged the government to turn to the IMF for assistance. The initial short term phase of the program succeeded in stabilizing Tunisia's external accounts and restoring the country's credit rating. But the more critical aspect of the program is carrying out the structural adjustments that will make the country solvent in the long term.

Most important for the country's future is the capacity to meet the developmental challenges that have been brought about by demographic growth since independence. Tunisia must make radical improvements in its capacity to provide jobs, food, and capital investment if it is to keep pace with the growing needs of the population. The state is simply incapable of meeting these challenges through the public sector. The public enterprises are too costly and inefficient to expand to the degree necessary without an intolerable increase in the national debt. The burden of supporting the vast public sector has already driven the country to the edge of bankruptcy, and the state has no option but to seek new solutions. The only way for the state to meet its developmental challenges while reducing its own financial liabilities is to unleash and encourage the private sector. If the developmental challenges are not met, the country will face a future of deepening political instability in a region already troubled by the rise of Islamic fundamentalism.

The structural adjustment program has many differentiated components, but its ultimate success hinges upon a major increase in private investment. Foreign investment will be encouraged by a relaxation of currency regulations and by the creation of offshore facilities to facilitate exports, especially towards European markets, for which Tunisia has preferential access. But the bulk of the private investment that is required to meet the country's developmental challenges will have to come from domestic sources. The Tunisians clearly have considerable savings available for investment, but have thus far been reluctant to tie it up into fixed capital investment. While private investment has indeed picked up in recent years, this portion of the structural adjustment program is lagging behind the levels needed for sustainability. This means that job creation remains less than adequate and makes it very difficult to proceed with the privatization program, which up to now has been the weakest aspect of the structural adjustment.

A lack of investor confidence thus represents one of the principal impediments to the sustainability of structural adjustment. Two key reasons for their hesitancy are identifiable. The first has to do with the arbitrary nature of the bureaucracy, which for years has been closely linked to the patronage system, where personal connections have represented the key to coping with the multiple regulations enacted by the state. Obtaining business licenses and permits represent potentially huge hidden costs that must be taken into consideration if investors are not linked into the patronage system.

Secondly, there remains some skepticism about the future political stability of the country, as the Ben Ali regime has not succeeded in halting the gradual erosion of political legitimacy. Concerns about future political stability are heightened as a result of certain aspects of the structural adjustment, which will negatively impact most Tunisians in the short and medium term. In particular, the reduction and removal of consumer subsidies will cause the prices of basic goods to rise significantly and the privatization program will lead to dislocations among those employed in the large public sector. With the Islamic fundamentalists seeking to exploit dissatisfaction with the regime by concentrating on themes of social justice, the implementation of these unpopular reforms is especially delicate.

Moving ahead with some degree of political liberalization is thus critical to maintaining the stability of Tunisia's political economy. The state must become more responsive and open to the needs and anxieties of potential investors, who need to be given more freedom in organizing and expressing their concerns. To arrest the decline of the state's political legitimacy, representative institutions need to become more effective in providing a forum for debate and negotiation. Considerable consensus will be needed for the successful implementation of the adjustment measures, which cannot easily be imposed by fiat. Improving bureaucratic accountability, the rule of law, and the capacity of representative institutions should help both in encouraging private investment and in improving the regime's political legitimacy.

The economic and political crises that afflicted Tunisia in the 1980s were the result of structural deficiencies in the political economy of the country. These deficiencies were the legacy of excessive state control of both economic opportunity and political life, and only a move towards more of a market democracy will help resolve problems over the long term. The successful liberalization of Tunisia's political economy can only be accomplished through reform in both the economic and political domain. Because of the context of nascent Islamism, this process will have to be approached gradually and with caution. But progress nevertheless has to be made soon to maintain the sustainability of the reform process.

SECTION I
INTRODUCTION: THE CHALLENGE OF LIBERALIZATION

Tunisia is currently implementing the most profound set of liberalizing policy reforms since independence. Like many other Near Eastern countries, its first 37 years of independence have witnessed the limits of the state, both economically and politically. Under considerable pressure from both external and internal sources, Tunisia has taken significant preliminary steps towards reforming its statist political economy in the direction of a market democracy. The results have thus far been mixed but generally positive. As in most other Arab states, however, residual political constraints make it unclear just how far down this liberal road the regime is willing to go.

Unlike many of its counterparts in the region, Tunisia has been noted for its relatively sophisticated political system and has repeatedly been cited as a model for development. Analysts have given the country top marks for its institution building, secularized political culture, commitment to education, reduced birth rate, and legislation regarding women's rights. The first presidential succession that took place in November 1987 gave hope that Tunisia was capable of even further socio-economic development.

Yet the "Spring" of 1987 was to freeze over. The regime's battle against Islamic fundamentalism was to take priority over democratization at a time when political liberalization was becoming an essential complement to economic reform. The threat of Islamic fundamentalists has led the government to back away from the liberalizing reforms that were so vital to the success of the country's structural adjustment program.

The government's economic reform policy hinges upon significant increases in private investment. The willingness of Tunisians to invest in a growing private sector is in turn partly contingent upon confidence in the future of the political order. Unfortunately, the GOT's effort to shore up their declining legitimacy through democratization has been stymied by the struggle with the Islamists. Yet some degree of liberalization remains essential to the reform of the country's political economy.

Politically, the state overextended itself during the first three and a half decades of independence. The premier objective for the Tunisian state (as for most other Near Eastern or African regimes) during the immediate post-independent period was consolidating and asserting its authority. National unity was seen as a prerequisite for political stability, which in turn is an essential condition for economic development. In the cultural context of the Middle East, national unity was achieved not so much through popular participation as through submission to benign central authorities. Having replaced the former colonial masters, the new government became the champion of social justice, taking responsibility for the challenges of development by inaugurating impressive programs of mass education and creating a vast parastatal sector to guide the economy to prosperity. Gaining the favor of the new elite thus became the principal means of social mobility. The faithful were rewarded by the state with access to economic opportunity, a system that worked relatively well in Tunisia as long as the population was small enough to be encompassed by a personalized patronage network.

A powerful presidency, with its supremacy clearly established by the Constitution of 1959, was at the core of the system in Tunisia. The power of the first president, Habib Bourguiba, was further enhanced by his idolization as the charismatic founding father of the new nation. The dominance of the presidency was extended by a network of personalized clientelism made possible through the important role played by the ruling party. The Neo-Destour (later known as the PSD and RCD) had developed a grass roots penetration of society during the struggle for national liberation and thus provided the newly independent state with access to significant portions of the population. In turn, the party represented to the population the principal means of upward social mobility and economic opportunity.

Such a personalized political system in a context of limited public resources has not been able to keep pace with demographic growth. Partly because of a significant decline in mortality rates, the population has more than doubled since independence. The creation of a vast public sector, once the principal employer and guarantor of access to basic goods, provided only temporary respite from the demands for individual advancement, as the party gradually became less and less financially capable of responding to the needs and aspirations of the people. Within 10-15 years of independence, the ruling party went from being a conduit for grassroots popular mobilization to a vehicle for top-down authoritarianism.

The structural economic deficiencies that were to become apparent in the 1980s were thus accompanied by a gradual loss of political legitimacy. Bourguiba's charisma degenerated into idolatry as his nationalist credentials wore thin with new generations born since independence. The omnipresent ruling party was no longer seen as the key to national liberation but as the jealous guardian of increasingly scarce social mobility. The social contract established at independence implied that an interventionist state was to provide for the basic needs of the population in exchange for popular support, but the state could no longer afford to keep its end of the bargain. By the 1980s, the legitimacy of the state was more a function of what it could deliver than its ideology of national unity.

Economically, Tunisia faced a financial crisis in the mid-1980s that forced it to reevaluate the degree of state intervention into the economy. Recurrent and growing budget deficits drove the country to the brink of bankruptcy, and structural deficiencies in the balance of payments led Tunisia deeply into debt, with service payments consuming nearly 30% of export revenues in the mid 1980s, thereby constraining available capital for investment. The current account deficit, which hovered between 5-6% of GDP during the 1970s, reached 15% of GDP in 1984. A vast and bloated public sector proved too costly for government revenues and too inefficient for international competition. The severity of the financial crisis left the government of Tunisia little choice: Government spending had to be cut, and exports had to become more competitive in order to maintain access to the hard currency needed for development.

The crisis was largely the result of short sighted economic policies adopted since independence, policies that were shared by most other countries of the region. Since independence in 1956, the GOT pursued a statist approach to development featuring an active government role in both investment and ownership, a practice that was inherently costly and inefficient. The conventional wisdom of the time was that active state management of the key points in the economy assured development with social justice, and import substitution policies provided some insulation against dependence. Since then, developmental theory has undergone major revision in favor of open market economies. While heavy state planning and intervention may indeed have accelerated the construction of a modern infrastructure and protected key infant industries from international competition during their maturation, such intervention is simply no longer affordable given the scope of the current challenges faced by countries such as Tunisia.

Government dominance and control over economic opportunity have proved inefficient, especially in a context of rapid demographic growth. The GOT can be proud of impressive accomplishments in providing its people with the education, skills, technology, and infrastructure needed as the basis for further economic development. However, although Tunisia has now brought its birth rate to under 2% growth per year, the number of those entering the labor market have been rising at a much faster rate (3.1% between 1975-1984).[1] The need for new employment will be greater over the next decade than ever before. The principal developmental challenge for contemporary Tunisia is the provision of enough employment opportunities for those who have recently or are just about to enter the job market, a bulge in the demographic curve which happens to represent the majority of the population. The public sector cannot possibly accommodate its principal developmental challenges, and so is forced to turn to the private sector to supplement the provision of goods and jobs. In short, the GOT must relinquish enough control over economic opportunity to allow private citizens to take care of themselves.

The twin economic and political crises faced by the GOT during the 1980s were primarily due to excessive state control. In order to meet the challenges of job creation and the need for capital investment, the state must give more leeway to the private sector, both national or foreign. In order to revitalize the social contract and enhance political legitimacy, the state must allow greater participation in the distribution of economic opportunity while increasing bureaucratic accountability and the rule of law. Liberalization has become a must for both Tunisian economic development and political stability.

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1 Although the population growth rate for the period 1975-1985 was 2.5%, the higher growth in those entering the labor force is explained by increased levels of female participation (Radwan 1991, 10).

The excessive state intervention evident in Tunisia is a characteristic shared by many other developing countries, including others in the region. In Tunisia, this tendency was inaugurated during the pre-independence period when the French sought to unite the country under a single administrative network designed to facilitate the exploitation of Tunisia's natural resources (primarily agricultural and mineral) and the imposition of colonial rule. Centralizing tendencies were accentuated after independence with the predominant role given to state planning (as an accelerator of development) and with the priority placed on national unity. As the dominant class came to base its rule around this centralization, the phenomenon became more entrenched in the political economy of Tunisia.

This high degree of state control was among the most important factors leading to the financial and political crises of the 1980s. The downturn in petroleum and phosphate prices on the international market certainly contributed to Tunisia's difficulties, but the GOT could do little to influence these while it could do much in terms of internal reform. In order to extract itself from its difficulties, Tunisia must liberalize. Economically, the state must above all reduce its overbearing public sector commitments through a serious privatization program. Politically, the government needs to liberalize its stranglehold over participation if it is to survive by legitimate means.

The need for economic liberalization was the conclusion reached by the GOT under Prime Minister Nouira as early as 1970, after the failure of the socialist cooperative experiment under Ahmed Ben Salah had become unmistakable. Under Prime Minister Nouira, new decrees expanded fiscal benefits, credit subsidies, and exchange facilities favoring private investment. The private sector was encouraged during this period by the creation of such agencies as API and CEPEX (Bellin 1991, 50). But a comprehensive program of economic liberalization was only given foremost priority after the financial crisis of 1985/86, when foreign reserves fell to an all time low. At that time, Tunisia had reached the end of its commercial credit line and was also ranked as a significant political risk. The country was obliged to embark on a structural adjustment program under the guidance of the IMF in order to maintain access to transnational capital.

The GOT has distinguished itself by meeting most targets of this structural adjustment program and as a result of its compliance has been cited as a model by the World Bank. It has displayed a consistent commitment to pursue such economic reforms despite the country's first change in the presidency in 1987. The GOT has made impressive strides in bringing its current account under control and in regaining a favorable credit rating. Over the first seven years of the reform program, the GOT has earned the reputation of having sufficient political will to engage in meaningful structural adjustment.

Nevertheless, substantial political constraints continue to impede further and more fundamental liberalization. Certain aspects of the economic reform package, most notably the privatization of the vast public sector, remain hostage to vested interests that resist the relinquishment of control by the state in favor of more efficient economic management.

Tunisia has been markedly less successful in the domain of political liberalization than in economic reform. The intransigence of vested interests which owe their sinecures to political connections was underestimated in the heady period that accompanied President Ben Ali's seizure of power from the senile Bourguiba in 1987. First indications were that Ben Ali was going to move rapidly ahead especially in regards to opening up the political arena. His government adopted more liberal press laws, legalized several opposition parties, released thousands of political prisoners, and changed the constitution to limit the presidential term of office. The new president abolished the State Security Court (Law 87-79) and the position of General Prosecutor (Law 87-80), both of which had been used by Bourguiba in his crackdown against the Islamic fundamentalist movement, and in January 1989, Ben Ali was even awarded an international prize for the advancement of human rights. Yet despite these early promising signs for a profound political opening under the new government, Ben Ali's rule has since become marked by a notable reluctance to carry through with any meaningful political liberalization, and, if anything, there has even been some regression in this domain.

The tenor of the GOT's political liberalization program noticeably changed around the time of the April 1989 legislative elections. Since then, the regime has attempted to control and limit public expression of dissent or criticism, muzzling the national media by suspending the operations of selected opposition papers and even jailing some publishers after highly criticized trials in military tribunals. The GOT has even attempted to censor international news by expelling foreign journalists, preventing particular copies of newspapers from entering the country, and cutting off certain television news broadcasts from France. The Islamic movement was effectively forbidden from entering the 1989 elections despite their claims to have met the conditions for their participation set by the government, and they turned to more militant and violent tactics, which in turn were met by ever greater levels of repression and mass detentions. The trade union movement remains in the hands of the government men who appropriated its leadership in 1985. The moderate opposition parties are tolerated and even encouraged, so obvious is their lack of any popular following or appeal, but when the PSP won the Ksar Hellal municipal elections in 1990, the newly elected officials were all soon forced to resign through a variety of strong arm tactics. The formerly autonomous League of Human Rights was emasculated by government decree to the point of dissolution while Amnesty International put out critical reports documenting the degeneration of human rights in Tunisia. Observers of the Tunisian political scene found their optimism short lived regarding a potential transition to democracy, and took to describing the regime as authoritarian.

Despite these setbacks to its political liberalization program, the GOT continues to reaffirm its basic commitment to democratization, human rights, and the rule of law. The GOT explanation for the apparent chasm between rhetoric and reality is based on the particular political context in which the country currently finds itself. Namely, during the 1980s Tunisia witnessed the remarkable growth of an Islamic fundamentalist movement, which today represents the only broad based opposition to the regime. It is impossible to accurately estimate the extent of their current following because the GOT crackdown has driven the movement underground, but in the 1989 elections where some Islamists ran as independents, they officially obtained 14% of the national vote. The Islamists insist the figures were actually much higher than reported by the GOT, claiming outright victory in the Tunis suburb of Ben Arous and in Sousse. University politics before the GOT campaign was dominated by the Islamists, demonstrating their strong appeal to the youths just reaching the labor market.

The Islamists represent such a radically different alternative to the regime that the political scene has become sharply polarized, with supporters of the status quo generally favoring the repressive measures taken against the Islamists. There is a lack of consensus among the Tunisian population over the nature of the regime and thus discussions of democratization are highly charged. Although the government claims to have the perceived threat posed by the rapid growth of the Islamic movement under control, events in Algeria continue to keep the issue at the forefront of political concerns. The Algerian experience has been cited by Tunisian authorities as vindicating their hard line approach to the fundamentalists, even if this has meant breaching some basic human rights standards.

Meanwhile, the legitimacy of the state continues to be undermined as the structural adjustment program negatively affects the majority of the population. The surge in political legitimacy that followed Ben Ali's initial gestures towards a greater emphasis on the rule of law following the November 1987 deposition of Bourguiba has faded away. The low turnout in the May 1990 municipal elections—estimated by some as low as 30%, even though the official claim was 80%—indicated a profound cynicism on the part of the population regarding the electoral process in Tunisia. Ben Ali is neither revered nor even popular, despite a highly visible campaign of idolatry in keeping with the traditions of other Arab leaders. The ruling party changed its name in 1987 to the *Rassemblement Constitutionnel Democratique* (RCD), but its initials are sarcastically referred to on university campuses as standing for the *Rassemblement Contre la Democracie.*

Political liberalization is an essential complement to the move towards more of a market economy. For the private sector to be able to function effectively, the state must loosen its control over the articulation and aggregation of interests. For the entrepreneurial spirit to flourish in a free market context, businessmen need to be able to express their concerns and needs in other ways than through personalized networks of patronage. Bureaucratic accountability and the rule of law are vital in establishing investor confidence. The state must become more open to potential interest groups trying to make the best of economic reforms.

Polarization of the political system means that political liberalization will have to be approached gradually and with caution. Any attempt to move directly to a simplistic interpretation of democracy with control over the state being decided at the ballot box is bound to lead to unanticipated consequences in the context of contemporary Tunisia. The existing regime and an important part of the public are convinced that the risks involved in such a process are simply too high to give such a vision of democratization any chance of success. It is far different and more appropriate to think in terms of a limited state than of a system of majority rule. What is needed is a gradual relaxation of state control over economic opportunity and political influence rather than an abrupt move towards a populist takeover of government. While a draconian move towards the rule of the masses might favor an Islamic takeover and lead to intense civil conflict, a more modest and targeted form of political liberalization could even strengthen the state. Room could be made for those with an interest in stability and the success of the reform project. The ruling party needs to loosen its grip over economic opportunity to allow emerging social groups to develop a greater stake in the system. Only when a stronger consensus over the political order is established can a more radical vision of participatory democracy even be contemplated.

SECTION II
ECONOMIC DEVELOPMENT PROBLEMS: PITFALLS OF INTERVENTIONISM

A. Origins of Excessive State Control

Much of the GOT's early tendency towards a statist management of the economy may be explained by the weakness of the indigenous private sector upon independence in 1956. French colonial rule was not based on the encouragement of industrialization, but primarily concentrated on the development of Tunisia's agricultural and mining potential. Local industry flourished briefly during World War II because of the interruption of foreign imports, but most of the firms that sprang up to fill the void were uncompetitive and collapsed when the end of the war brought a resumption of manufactured imports (Bellin 1991, 47). In February 1956, with a population of close to 4 million, there were only 290 companies employing 50 people or more, 85% of which were owned by Europeans, who also made up 40% of the work force (Grissa 1991, 109). The weakness of the Tunisian capacity for middle level management was further compounded by the exodus of some 200,000 people between 1956-1962, mostly French, Algerians, and Libyans, the latter returning to their own country after the discovery of significant petroleum reserves (Radwan 1991, 3). There was thus a striking lack of private sector potential in 1956. With a shortage of both adequate domestic managerial expertise and investment capital, the limitations of the private sector necessitated public intervention in the early years of independence (Saghir 1993, 4).

The economic logic behind the interventionist development strategy was also based on the economic orthodoxy of the era. Import substituting industrialization and the protection of infant industries from international competition was much in vogue as a way for developing countries to enhance their comparative advantage in the world market. This involved protectionist measures such as high tariff barriers and overvalued exchange rates. State planning and intervention in the economy were seen as the primary means of accelerating development. Industry was given priority over agriculture in the reigning orthodoxy of modernization.

A vast public enterprise (PE) sector was thus created as the result of the above economic considerations. The GOT actively developed the PE sector as a means of undertaking activities beyond the scope of the private sector. The Tunisian parastatals thus started to grow soon after independence in 1956. Prior to this, the only market oriented PEs were in seaports, salt, tobacco, and alcohol (Grissa 1991, 109). But from the inception of the new state, through the 1960s, the PE sector continued to grow, accounting for 55-60% of all investment (Saghir 1993, 6). In 1961, the PE sector received a big boost with the endorsement of further state planning best known for the agricultural cooperative experiment of Ahmed Ben Salah. The growth of the PE sector was spectacular and by 1983 counted 174,000 workers, representing some 30% of total formal sector employment.

The political logic behind the creation of the vast PE sector was even more compelling. The expansion of the public sector permitted the new state to assert its authority through the strengthening and extension of the patronage system. The PE sector enabled the state to pursue significant socioeconomic goals, such as the distribution of incomes, that would not have been possible through the private sector. Material rewards in the form of employment opportunities were distributed to loyalists, and decisions regarding regional development were largely determined by political criteria. The bureaucracy became a means of political control, with approval needed to start new enterprises, acquire credit or foreign currency, and to obtain import licenses. Above all, the powerful trade union was mollified by the large number of jobs created.

The legacy of the political logic that underlay the edification of the huge PE sector was considerable economic inefficiency. Neither the controlling authorities and their workers, nor local customers view the PEs as normal enterprises needing to make a profit in order to survive (Grissa 1991, 114). It is estimated that the public sector currently is overstaffed by approximately 20%, or 30,000 workers (Saghir 1993, 7), which poses a major political constraint to the GOT's privatization component of its structural adjustment program. The dual function of the public sector as a vast employment agency led to overstaffing and underutilization of labor, which further discouraged optimal performance. The sensitivity over labor issues was further illustrated by the implementation of labor legislation which makes it extremely difficult to fire workers for unacceptable performance. Wage rates have risen more rapidly than productivity, discouraging investment in labor intensive industries. Neither the labor laws nor the rising wage rates make much economic sense in the context of high unemployment that characterizes present day Tunisia.

Another symbol of the predominance of the political logic behind excessive state regulation of the economy was the institution of a heavy system of consumer subsidies in 1970, at a time when the pressures from demographic growth and internal migration towards the cities were becoming severe. The fundamental purpose behind the establishment of the *Caisse Generale de Compensation* (CGC) was to ensure a modicum of social justice during a time of profound social transformation by keeping food staples within the reach of even the poorer segments of urban society. The policy was also defended on the grounds that the subsidies allowed the GOT to cap wage increases in the PE sector with the intention of rendering their manufactures more competitive, although pressures from the trade unions were to undermine this objective. Public expenditures on subsidies rose from TD10 mn in 1973 to TD80 mn in 1980, and to TD218 mn in 1986. In 1989, this spending represented about 16.5% of the state budget (Ferchiou 1991, 102).

With the repudiation of Ben Salah's cooperative experiment in 1969, Bourguiba's regime appeared to recognize the drawbacks of its state-centered development strategy. Under Prime Minister Nouira, some attempts were made to encourage the growth of the private sector. But the constraints posed by the political economy of interventionism were already so severe that only those businessmen with close political connections were able to take advantage of the opening. Although the myth of the "Nouira miracle" is often used to explain Tunisia's rapid economic growth during the 1970s, the real reason behind the exceptional expansion of the economy during that decade may be found in the huge increase in windfall foreign revenues, as explained below.

The massive government intervention into the economy was thus closely linked with the perceived political imperatives faced by the young regime. An unwritten social contract obliging the GOT to assume the role of provider of food and jobs increasingly underpinned the state's basis for legitimacy as the ideology of national liberation wore thin. The process of liberalization necessitated by the financial crises of the 1980s thus involves more than simple economic choices, for it also threatens well established patterns of political behavior.

B. The Limits of the State as Economic Actor

The economic inefficiencies inherent in the political logic that underlay Tunisia's interventionist tendencies were to become apparent once the massive influx of foreign revenues were to dry up in the 1980s. In particular, there were two components of the financial crisis that obliged Tunisia to embark upon an IMF sanctioned structural adjustment program in 1986: Runaway budget deficits and severe deficiencies in the balance of payments.

B1. Internal Overspending

One of the principal failures of the interventionist era was that government revenues could not keep pace with growing expenditures. This was in large part due to the rapidly growing population, which placed unaffordable strains on the governmental obligations implicit in the social contract. Between 1956-1984, Tunisia's population increased by 84%, representing an average rate of 2.2% per year (Radwan 1991, 8). By 1985, the budget deficit had reached the unsustainable level of TD485 mn ($581 mn), forcing the state into ever greater dependence on international financial markets (Payne 1993, 10). The key elements sending public spending into the red were expenditures on the PE sector, consumer subsidies, and excessive levels of public investment.

The overstaffed and inefficient parastatal sector represented the most significant drain on the national treasury. As public companies managed by political insiders, the parastatals faced muted motivation for cost effective operation and many ran at a deficit. By 1980, the majority of PEs were running at a loss, and state financing of parastatals had gone from 6% of total GOT expenditures in 1969 to 20% in 1980 (Vandewalle 1991, 115-116). These figures indicate the key role the PE sector has played in subsidizing consumer goods and public services. Towards the end of the 1980s, the subsidization of the parastatals was estimated to consume as much as 30% of the budget. Budgetary transfers to the PEs went from TD12 mn in 1969 to TD200 mn in 1980 (Ferchiou 1991, 105). Of course, their importance to the economy was by then paramount, accounting for roughly 30% of GDP (Saghir 1993, 6). The stringent laws protecting workers from being fired also minimized incentives for increased productivity. The mining sector was particularly noted for its inefficiency and overstaffing, partly because many of its operations were in the relatively neglected southern central region of the country where job opportunities were essential to stemming the rural exodus.

Consumer subsidies also became an onerous expenditure given the expanding population, consuming between 2-4% of GDP in the late 1970s and early 1980s. In addition, the underpricing of food products for the local market represented disincentives for farmers, thus contributing to the soaring food import bill (see below). Reducing the system of consumer subsidies represents one of the most politically sensitive aspects of Tunisia's structural adjustment program, since most Tunisians have come to view low food and transport costs as their entitlement. The subsidies have become an implicit and essential part of the social contract between the masses and the government, and attempts to eliminate the CGC severely undermine the GOT claim to political legitimacy.

Ambitious public investment projects also served to send the GOT budget into the red. Massive expenditures on large scale infrastructural projects were seen as necessary to facilitate more broadly based economic development, but public investment was also seen as the solution to job creation, a perspective that became untenable as the post-independence baby boom generation began to come of age. As noted above, much of the public investment went towards creating and sustaining the PE sector. The remarkable largesse of the GOT towards the PE sector was in part based on optimistic forecasts that the windfalls in foreign revenues during the 1970s (primarily based on petroleum exports and the easy availability of international credit) would continue. More than 110 new state enterprises were created between 1973 and 1984. Government expenditures as a percentage of GDP went from 28.7% in 1972 to 32% in 1976 to 40.6% in 1984 (Grissa 1991, 112). As Tunisia's access to hard currency decreased during the 1980s, the state's development strategy was called to question.

B2. External Overextension

Tunisia also began to run structural deficits in its current account during the late 1970s which grew to intolerable levels by the mid 1980s, precipitating the move towards an IMF style structural adjustment program in 1986. That year, the current account deficit reached $618 mn.

Tunisia had become spoiled by favorable external conditions during the 1970s that led to overly optimistic planning regarding foreign exchange earning potential. High export earnings from petroleum, important increases in remittances from migrant labor abroad, and growing exploitation of the country's tourism potential helped foster this complacency. The easy access to credit that was characteristic of the decade further created a spirit of optimism and a sense that the good times were going to last. The infusion of foreign exchange fueled an economic boom that lasted from 1974-1982. Some estimate that foreign receipts increased at least fifty fold between 1965-1977 (Radwan 1991, 4).

But world prices for phosphates were to plummet, and the remittances from migrant labor proved to be vulnerable to downturns such as the expulsion of 30,000 Tunisian workers from

Libya in 1985 and the recession in Europe. Receipts from tourism continued to grow, but have proved susceptible to regional political tensions beyond the control of the GOT, such as the American bombing of Libya in 1986 and the 1991 Gulf War. Today, tourism ranks first among Tunisia's foreign exchange earners. Meanwhile, the price of food on the world market rose rapidly during the 1970s just as imports became a growing fixture in Tunisia's trade balance. Between 1970 and 1980, the cost of agricultural imports to developing countries rose by an average of 20% per year (Spero 1990, 165). In Tunisia the food deficit rose from TD27.1 mn in 1975 to TD106.1 mn in 1980 to TD138.6 mn in 1985, representing close to 20% of the total trade deficit the latter year (Radwan 1991, 74). The combination of these negative trends led to a stagnation of aggregate GDP between 1983-86, meaning that per capita GDP fell by 9% (Radwan 1991, 6).

The situation was aggravated by artificially inflated exchange rates for the Tunisian dinar. This helped keep the cost of imports within reach, but only accentuated the poor competitiveness of exports. The clearly overvalued dinar also served to discourage domestic savings, for those with discretionary capital were wary enough to sense that a significant devaluation was inevitable. The artificial exchange rates were a symptom of the state's dependence on foreign exchange in the short term.

The GOT was reluctant to recognize the problems with its external account as structural, preferring to interpret them in terms of a short term liquidity shortage. This tendency was reinforced by the GOT's insatiable need for foreign exchange, which was essential to cover the gap in the trade deficit and to the development plans and current expenditures which were crucial to the regime's social obligations. During the boom years, "the country could afford to set aside some of its abundant foreign exchange to import food or subsidize import-dependent local industries." (Radwan 1991, 88).

The GOT thus began overextending itself on the capital market during the late 1970s, running up a large foreign debt that was to eventually call to question the era of unrestrained public spending. The country's total external debt reached $6.8 bn in 1987, representing 73.7% of GDP. In 1986, with its debt service ratio reaching 28.2% and a high political risk rating discouraging future lenders and investors, Tunisia was forced to turn to the IMF as its reserve holdings fell to an historic and dangerously low level. During the summer of 1986, foreign reserves dwindled to $69.6 mn, representing about nine days worth of imports (Moore 1991, 90).

Tunisia's money problems were not helped to any great extent by private investment capital, which remained scarce. The difficulty in attracting foreign investment was compounded by the country's reputation for costly red tape. Uncertainty over Tunisia's political future and the element of capriciousness which characterizes the implementation of government regulations had scared away domestic savings, and had much the same impact on foreign ventures. The interventionist tendencies of the regime had stultified private investment.

With commodity export revenues squeezed, a mounting debt service, growing trade deficits, insufficient foreign investment, and shrinking reserves, the government was obliged to impose a structural adjustment program in 1986 to reverse the decline. The GOT had previously been well aware of its mounting financial difficulties, and had been tinkering with liberalizing reforms for some time, but it was the crisis in foreign reserve holdings and the runaway current account deficit that finally brought matters to a head. Tunisia was forced to turn to the IMF for a standby credit of $180 mn in 1986, and the era of structural adjustment was launched.

C. Developmental Challenges and Requisites

In pursuing a strategy of state planning and intervention, the GOT took on many social responsibilities, including popular access to basic goods and the provision of a minimal degree of economic opportunity. The Tunisian people have come to expect the state to provide these entitlements, viewing such beneficence as an inalienable right due to the omnipresent government hold over the economy. When the structural adjustment reforms call for minimizing or eliminating these costly public responsibilities, the legitimacy of the social contract is brought into question, as shown during the riots of January 1984, when overnight the price of bread was raised by 115% and government subsidies on flour, cooking oil, and other staple goods were eliminated (Harris 1989, 826-827). These measures had to be rescinded as a result of the public outcry.

The Islamic fundamentalists have gained popularity through their willingness to fill the social void left by a retreating state, such as by providing financial assistance to the bereaved and destitute. The popularly perceived abandonment of the social contract by the state feeds into the Islamists' stress on social justice. By no longer being able to perform some of its redistributive functions, the state leaves the field open to the Islamist contenders (Vandewalle 1991, 110).

During the first 30 years of independence, the state played the role of a benevolent patriarch, and the legitimacy of the regime became closely tied to the performance of its expected duties. But such an arrangement is simply too expensive for countries without exceptional natural resources, such as Tunisia. Demographic growth and international competition have outpaced the capacities of the Tunisian state. The principal developmental challenges faced by the GOT are the generation of employment, food, and investment capital. The successful implementation of far-reaching reforms are required if the GOT is to be able to meet these challenges well enough to maintain sufficient political legitimacy.

C1. Jobs

It is inconceivable that the GOT could generate sufficient opportunity for the burgeoning labor force through further expansion of the public sector, even under such favorable conditions as existed in the 1970s. The rural exodus has alienated young generations from traditional means of social support and the numbers dependent for urban survival on government largesse have continued to mount at an alarming rate. The official rate of joblessness in mid-1991 was 12%, but union figures claim a rate of 20.8%, or 500,000 unemployed (EIU 1992, 10). In 1978, an estimated 58% of the unemployed were under 25 years of age. The average annual additional supply of labor grew from 35,700 during the first decade of independence to 70,000 under the Seventh Plan (1986-1991). But for the last 15 years, the formal economy has not been able to generate more than 40,000 new jobs per year (Ferchiou 1991, 105).

Prospects for the external migration of labor have diminished in recent years. There are currently an estimated 400,000 Tunisians working abroad, most of them in France or other parts of Western Europe (EIU 1992, 10). But the recession in Europe has led the EC governments to discourage further Maghrebian migration, and hence this outlet can no longer be counted on as a safety valve. The only certain way to accommodate the increased need for jobs is through a relatively rapid expansion of the private sector.

Further complicating the situation is the GOT's impressive investment in human capital since independence. Among countries at similar levels of development, Tunisia has distinguished itself by its commitment to public education. The GOT has consistently allocated 25-30% of its budget for education, with public education free to all Tunisians at all levels (Perkins 1986, 120). Today, there exists a substantial core of sophisticated and well-trained young Tunisians who are grossly underemployed. Unfortunately, the very selective higher education system has overtrained the brilliant while leaving a gap in middle level training. Nevertheless, this human cadre provides a rare and valuable resource for future development of the private sector. But in the short term, the surplus of well-educated Tunisians has led to rising expectations that cannot be fulfilled. Chronic protests at the University of Tunis illustrate the disenchantment of the educated.

C2. Food

The history of cheap food in a context of limited earning potential has created a popular dependence on consumer subsidies and imports. For many years, government pricing and investment policy discouraged local food production under the expectation that increases in export revenues would more than cover increased food imports. One of the justifications for this policy has been that it is more cost effective to concentrate on other exports and continue to import relatively cheap food. Indeed, for the past few years, Tunisia has benefitted from a trade war between the USA and France, both of which have tried to capture the North African wheat market with subsidized exports. As food imports continue to increase in value, more exports must be encouraged to compensate for these expenditures.

Tunisian agriculture during the 1960s developed a dependence upon imported inputs, subsidies, and cheap credits (Radwan 1991, 31). An increase in the need for cereal imports led to a loss in food self-sufficiency, a situation exacerbated during the recurrent drought years. In an average year, close to 100% of the urban demand and 20% of the rural demand for the soft wheat used in bread is met through imports (Radwan 1991, 77). The dependence on the state for inputs and protection against foreign competition has stifled internal dynamism in the agricultural sector except for those large farmers with extensive personal connections to the ruling party.

C3. Water

More efficient management of limited water resources is also essential to rural development and the reduction of farmer dependence on government subsidies. One of the scarcest factors of production in Tunisia's semi-arid agricultural sector is water. Over the years, the GOT has substantially increased irrigation capacity through the construction of dams, but the management of such water resources could be enhanced by becoming more demand-sensitive. With support from USAID and the German KfW, the Tunisian Ministry of Agriculture has been experimenting with water users' associations in the countryside in recent years, with very promising results. The *Associations d'Interets Collectifs* (AICs) have in some cases managed to reduce government expenditures by paying operations and maintenance costs and are developing into demand-responsive institutions, in contrast to the top-down management characteristic of so much of the agricultural sector in the past. While the AICs are still in a early stage of development, and deal primarily with drinking water thus far, their example has far-reaching implications for the developmental potential of local voluntary associations.[2]

C4. Money

The other critical developmental challenge facing Tunisia has to do with the scarcity of capital (Richards 1993, 10). Successfully addressing the need for jobs and food will require significant investment capital. Other means must be found to make up for the loss of easy access to foreign exchange enjoyed by the GOT in past years. The country's external debt and debt service ratio ($7.5 bn and 25.8% respectively in 1990) precludes any substantial expansion of the public sector. The GOT must cede its historic responsibility for the provision of jobs and food to the private sector. The capital needed to meet Tunisia's development challenges can only come from domestic or foreign private investment.

To solve its capital problem, the GOT must therefore mobilize domestic savings and encourage foreign investment. Although considerable domestic and "off-shore" savings by Tunisians exist, there is a widespread distrust of the government that discourages the investment of these resources. Potential investors fear that their savings will be expropriated as a result of changes in the political regime, eaten away by inflation or overvalued exchange rates, or held hostage by arbitrary and capricious bureaucracies. Their anxieties concerning the risks of investing in Tunisia render them hesitant to sink their money into fixed capital investment. In order for Tunisia to satisfy the developmental requisites for capital, these anxieties must be assuaged.

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2 I am grateful to Fred Huxley (USIA Social Science Analyst) and Diana Putman (former USAID Program Development Officer in Tunis) for insights regarding the AICs.

SECTION III
THE REFORM PROGRAM

A. Design of the Structural Adjustment Program

The financial crisis in the mid-1980s obliged the GOT to engage in a set of reforms that planners had recognized as inevitable for some time. The reforms were designed as mutually reinforcing elements of a package that has come to be known as Tunisia's Structural Adjustment Program (SAP). Working closely with representatives from the IMF and the World Bank, Tunisia was able to obtain enough credit to surmount its short term crisis, while restoring its medium and long term credit rating by committing itself to a sustained program of reforms. The two principal objectives of the program were a short term stabilization of Tunisia's external accounts and a more long term adjustment of the country's structural economic deficiencies. The adjustment component of the program is the more socially costly and politically controversial of the two and consequently has proved more difficult to implement.

The stabilization component of the structural adjustment program seeks to equilibrate Tunisia's external account and bring the state budget back within reach, all the while maintaining the ability to service the debt. The adjustment component of the program is designed to enhance Tunisia's foreign exchange earning potential, render the public sector more lean and competitive (i.e. increase its productivity), mobilize domestic savings and foreign investment in the development of the private sector, and reorient the economy in favor of more labor intensive technologies (USAID 1990, 16). The agricultural sector is to be given more priority than in the past, and bureaucratic procedures are to be streamlined.

These objectives can only be accomplished through a significant reduction of control over the economy. Market forces have to be given a greater role in the allocation of resources, and private initiative must be nurtured. The increase in productivity and the mobilization of private investment capital are goals best accomplished through an increased integration into the world economy with a greater reliance on the export sector and the encouragement of foreign investment. The expansion of the national private sector, particularly in exports and agriculture, will in theory increase Tunisian productivity while taking some of the burden off the public sector with regard to job creation. The principal elements of the structural adjustment program package, which were to be implemented according to a gradual schedule worked out with the IMF, may be disaggregated as follows:

(1) Devaluation of the Tunisian Currency was to help improve the trade balance while also improving the terms for potential investors in the export sector. The devaluation would enhance the competitiveness of exports, help attract foreign investors, and ease some of the concerns of domestic savers about the long term security of the dinar. In addition, the existing strict regulations concerning private Tunisian holdings of foreign exchange were to be relaxed in order to try to recapture some of the individual savings placed overseas.

(2) The Promotion of Exports was to increase Tunisia's foreign exchange earning potential through greater exploitation of world markets. An increased integration with the international economy would lead to a more effective specialization according to the country's comparative advantage. Tunisia is well situated to provide goods and services to Europe, Africa, and the Arab world (USAID 1990, 5). It enjoys preferential access to European markets that could be exploited to greater advantage, with no tariffs imposed on most items. A greater diversification of exports is needed to help reduce Tunisia's vulnerability to EC trade policies, since around 75% of the country's exports and 67% of its imports result from trade with the EC (USAID 1990, 29). Priority was to be given to the expansion of export industries through increased incentives for investment in such enterprises, the devaluation of the dinar, the enactment of new legislation regarding offshore privileges, and the relaxation of controls over foreign exchange.

(3) Relaxation of Import Barriers was to both facilitate imports essential to private investors and lead to a reciprocal opening in the world market through adhesion to the General Agreements on Trade and Tariffs (GATT). Licensing requirements for imports were to be relaxed and tariffs lowered. It was considered that a growing private sector would thereby be able to enjoy access to needed imports while consumer spending on foreign goods would be kept within manageable limits by the devaluation of the dinar. The streamlining of the notoriously sluggish customs procedures was essential to this aspect of the reform system.

(4) Liberalization of Financial Regulations was to allow the banks to develop lending practices free from government influence. In the past, state control over the banking sector represented one of the most powerful means of patronage. The GOT forced the banks to give the lion's share of credit to PEs to the detriment of the private sector, even though the PEs were notoriously inefficient and unlikely to post a profit (Moore 1991, 73). As part of this aspect of Tunisia's structural adjustment program, most interest rates were to be deregulated in 1987.

(5) Liberalization of Price Controls was an element of the structural adjustment program that most benefitted the agricultural sector, which was to receive more priority under the Seventh and Eighth Plans. In accordance with the policies throughout the region, the agricultural sector had effectively been taxed by prior government pricing policies. Liberalizing prices would contribute to inflation, as would the devaluation and the reduction in consumer subsidies. But this measure was considered worth the short term social cost as it was essential to increase incentives for agriculture, which is the biggest single contributor to GDP, contributing 18.1% in 1991.

(6) Privatization of Tunisia's Non-strategic Public Enterprise Sector represents perhaps the most important aspect of the adjustment (as opposed to stabilization) program. Tunisia's vast PE sector excessively contributed to the chronic and growing budget deficits, its inherent inefficiency was detrimental to international competitiveness, and the priority given to this sector by the state stifled private initiative. The public sector was thus targeted as an area of important potential for reducing government spending and improving productivity. Socially, this measure promised to be sensitive since it was bound to involve substantial layoffs as the overstaffed state firms were forced to become more cost efficient. Politically, privatization would be difficult to implement as it directly threatened many vested interests at the management level. Privatization was vocally opposed by organized labor, the left, and above all by an important segment of the higher strata of the bureaucracy (Grissa 1991, 121). The GOT's commitment to privatization was somewhat cast into question by its overly broad definition of what constituted "strategic" parastatals, which were to be exempted from the privatization program.

(7) Reduction and Eventual Elimination of Consumer Subsidies was the most socially controversial element of the reform package in the short term. This measure would both reduce distorting government spending through the CGC and help bring the prices for basic goods up to their real market value. The whittling away of consumer subsidies would hit the pocketbooks of the poorer strata of society most significantly. In absolute terms, those of middle and higher income levels have benefitted disproportionately from the subsidies, although the subsidized consumer goods represent a much higher proportion of the expenses of lower income households. The dangers of reducing CGC expenditures too swiftly was underscored by the bread riots of January 1984. These measures were reversed by Bourguiba as a result of the unrest, and a more gradualist approach has been subsequently favored.

(8) Reduction of Public Investment was also necessary to bring Tunisia's current account into line with the realities of the 1980s. Tunisia's capital budget had to better reflect its financial capacities, and the grandiose development plans characteristic of the 1970s and early 1980s had to be scaled down. The social cost of this measure stemmed from the inhibition of job creation in the formal sector. However, increases in both national and foreign private investment spurred by the other elements of the structural adjustment program were expected to fill the gap. In particular, an expansion of private investment would be essential to permitting the sustained implementation of this aspect of the structural adjustment program.

B. Evaluation of the Structural Adjustment Program to Date

The GOT has done a remarkable job in meeting most of the targets of the structural adjustment program as agreed to with the IMF. They have been particularly successful in regards to the early stabilization aspect of the program, with their current account being brought back down to manageable levels, even showing a surplus in 1988 before slipping into the red again in the early 1990s. Tunisia has restored its sound credit rating and once again has ready access to both official and commercial foreign loans. What has been most impressive to analysts has been the GOT's unwavering commitment to structural adjustment over the years, despite the change in the presidency and the growing presence of Islamic Fundamentalists anxious to exploit the situation by blaming the government for the social pains of adjustment. A disaggregated evaluation of the implementation of the structural adjustment program is as follows:[3]

(1) Exchange Rate Reforms have been significant, with plans to make the TD convertible during 1993. First, there was a 10% devaluation in 1986, followed by a managed float and a liberalization of the regulations regarding access to hard currency for export oriented industries. The current thrust of the reforms is to facilitate business access to foreign exchange without prior approval from the Central Bank, which previously represented an impediment to private sector investment. These reforms are principally intended to assist businesses, both those investing in Tunisia and those exporting from the country. The allocation of hard currency to Tunisians travelling abroad has only risen from TD 200 to TD 500. But reforms have either been implemented or are under study to allow companies to hold foreign currency without restriction or even make investment outside the country without prior approval from the Central Bank. These reforms are also designed to attract foreign investment. While the commitment to reform is clearly evident regarding foreign exchange regulation, the bureaucratic implementation of convertibility has yet to be fully worked out.

(2) The Promotion of Exports has resulted in substantial growth and some diversification in this sector. However, some of these gains have been counterbalanced by increases in the value of imports. As a result, the trade deficit has continued to widen, from TD866 mn in 1985 to TD1,678 mn in 1990. Imports grew steadily due to the "growth surge" in the early 1990s, but the performance of exports was much more erratic (EIU Country Report, 1992, 7-8). Agricultural exports have gone up sharply due to unusually favorable weather since 1991. The exceptionally good harvests in 1991 and 1992 helped reduce the cost of food imports, although Tunisia's food deficit will again soar with the return of more normal weather conditions. Petroleum exports have also performed better than expected because new legislation encouraging foreign exploration ventures has led to several new finds. There has been a significant response to the reforms favoring offshore enterprises, particularly with an increase of investments in the textiles sector. Tunisia's new offshore facilities have been aided by their preferential access to EC markets, which has been a big attraction to foreign investment. The GOT is also considering creating several new free zones, where bureaucratic formalities would be reduced even further.

(3) Imports have continued to rise at a faster pace than expected with the liberalization of controls, but this is explained by greater input requirements as the private sector expands. The relaxation of import barriers continues on pace, with the GOT claiming that approximately 85% of imports no longer require licenses. However, most of this represents goods not produced in Tunisia, while about 40% of goods produced locally still require licenses. The remainder of the liberalization program will be much more difficult to implement than the first part because of the resistance by those with entrenched interests who

3 I am grateful to Robert Glass (Economic Attache, US Embassy in Tunis) for insights regarding this section.

have profited from heavily protected conditions in the past. The aspect of the import liberalization package that has fared most poorly involves customs procedures. Customs officials have shown themselves reluctant to release their stultifying grip over what comes into the country. Businessmen complain more about customs procedures than anything else. The resistance of the *douane* bureaucracy to reform represents a political constraint on liberalization, for vested interests have been established through the exercise of control in this domain. President Ben Ali has recently announced plans for the formation of a new corps of citizen inspectors to try to increase accountability in the customs and other bureaucracies.

(4) Financial Sector Reform has fallen behind schedule since the GOT has not been able to draw up an investment code within the timetable established by the World Bank as part of the conditions for a $250 mn loan. The Banque Centrale de Tunisie (BCT) is still accused of being overly centralized and excessively regulatory, with BCT approval required for all medium and short term loans over $100,000 (EIU 1992, 20). The GOT still wants the banks to raise their capital holdings, reduce some of the notorious over-staffing in this sector, and develop more transparent auditing procedures. Although interest rates are now generally positive (higher than the rate of inflation), their deregulation has not fostered the competition that had been intended because of persistent patterns of oligarchic collusion among the banks with regard to the interest rates, most notably through the *Association Professionnelle des Banques* (Moore 1991, 78). Interest rates are still a point or so too low to attract capital from abroad.[4]

(5) Good Progress on the Liberalization of Price Controls has given the agricultural sector a boost. However, the GOT still sets prices for products that are deemed "strategic", such as cereal grains, milk, sugar, and oil. The majority of agricultural products, however, are now set by supply and demand (USAID 1990, 23), and higher potential profit margins in this sector have thus attracted new private investment.

(6) Privatization of the PE Sector has been the weakest point in the GOT's realization of its economic reform targets. Not only has progress been much slower than forecast, but the pace of reform has slowed even further since 1990. Between 1987 and September 1991, 33 out of 189 PEs have been totally or partially privatized, for a total of $134 mn. This only represents just over 1% of the book value of the approximate 200 PEs that existed at the end of 1987 (Saghir 1993, 16). Thus, up to the present, privatization has been a marginal phenomenon that has in no significant way reduced the extensive role of the state in the production of goods and services (Saghir 1993, 17).

The GOT defends its poor record on privatization by pointing out that it has completed the first phase of the Tunisian Privatization Program (TPP) and that the current slow pace reflects the transition period before the implementation of the second phase. The first phase

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4 I am grateful for insights in this section to Brad LaLonde, President of Citibank Tunis.

essentially consisted of divestitures of small and medium enterprises in the traded sector, with the first companies sold off being in the tourism and construction industries. The means used to privatize included employee stock ownership plans (ESOPs), employee/management buy outs (EMBOs), private placement, and the sale of shares on the fledgling stock market (Saghir 1993, 1). Unfortunately, an active stock market exchange is impeded by a lack of information about company finances because the PEs have poor auditing capacities and generally remain secretive about their status (Moore 1991, 73). Most of the assets sold off during this first phase went to a small group of buyers with access to GOT officials, financing, and relevant information (Saghir 1993, 22). This has led to grumbles that many of the companies that have been privatized have gone to investors with important political connections who have essentially succeeded in replacing public monopolies with private ones.

The most positive aspect of the TPP has been the legislation redefining which PEs come under GOT control. The number of PEs under GOT control before 1985 was about 500, when 10% state ownership was enough to qualify. In 1985, that number was reduced to 307, when Law 85-72 based GOT control on state ownership of 34% or more of capital or combined ownership of 50% or more through direct or indirect means. The most recent legislation in this domain was passed in 1989 (Law 89-9), reducing the PEs subject to state control to those where 50% of their capital was owned by the state. This brought the number of remaining PEs down to 189 (Saghir 1993, 7).

Optimism regarding the second phase of the TPP should be tempered because the state must now tackle large PEs and the utilities sector. Moreover, the second phase will test employment issues and will rely on the public's willingness to invest in the private sector (Saghir 1993, 1). Despite the fact that a privatization commission under the prime minister's office was created in 1989 (Law 89-9) in order to more effectively implement the TPP, to date the GOT has been reluctant to publicly release a comprehensive program, largely due to the potential social consequences of such an announcement (Saghir 1993, 20). The prime minister has been in regular contact with the unions regarding the implementation of the TPP. ESOPs and EMBOs have been encouraged in order to try to lessen the negative impressions held by the labor force regarding the program. The *Fond de Restructuration des Enterprises Publiques* (FREP) was created in 1987 to finance worker compensation packages and other liabilities linked to privatization, such as arrears to social security or pension funds. Employees laid off as a result of privatization currently receive generous severance payments based on 1.5 month's pay per year of service (Saghir 1993, 17-18). All of the $134 mn gained from the sale of the 33 enterprises thus far privatized has gone towards severance payments and towards outstanding social security commitments.

The slow pace of privatization, especially in relation to the progress made on other elements of the reform package, represents the influence of important political constraints. The risks involved in aggravating unemployment by laying off workers with established and secure jobs has not been lost on the regime. More importantly, the management and staffing of the PEs has in the past represented one of the principal means of reward in the patronage system, and the government is reluctant to give up established and sure sources of political support.

(7) The Reduction of Consumer Subsidies has taken place at a gradual but relentless pace, and is proceeding more or less on schedule. The CGC now accounts for about 3% of GDP, down from 4% when the structural adjustment program was first implemented. Prices on basic food commodities and transport have increased on a regular basis as the subsidies have been slowly cut back. The GOT tends to raise prices on such commodities as bread, cooking oil, sugar, and transport by about 10% per year, usually in the summer when the pace of life has slowed and the university students are on holiday. Thus far, the slow pace of reform in this domain has avoided any recent outbursts of popular outrage, although most Tunisians are openly concerned about the increasing amount basic goods take out of their pocketbooks. The GOT apparently learned much from the experience of January 1984, when the abrupt doubling of bread prices led to widespread and bloody rioting.

(8) Public Investment. Tunisia showed exceptional determination in containing public investment in the late 1980s, but the capital budget has gone back up in the early 1990s as the anticipated increases in domestic private investment have failed to materialize at the high levels that had been forecast. Significant infrastructural projects have been included in this spending, however, which should help expand future private capacity, such as the improvement of the country's telecommunications system, and the construction of a new airport and roadways in the northwestern region of Tabarka, with potentially rich yet unexploited tourism markets.

On balance, Tunisia's record in implementing its structural adjustment program stands it in good stead. The GOT has done a remarkable job in satisfying the stabilization component of its reform program, although it still has a long way to go in implementing key aspects of its adjustment package. It has met most of its financial targets, and unlike many other countries in the region such as Morocco and Egypt, has not wavered from its commitment to these reforms, despite numerous political challenges. Tunisia has been cited as a model by the World Bank and, in July 1992, was praised by the IMF for its management of the structural adjustment program; as a result, it has been released from IMF constraints. In response, the GOT has assured its foreign creditors that it will continue to liberalize its economy under the IMF approved reform program (EIU Country Report 1992, 16).

However, looming political constraints threaten to slow the pace of change and limit the ultimate extent of the structural adjustment program reforms. The toughest issues yet to be faced remain the tariff protection of domestic industry, the still heavy burden of consumer subsidies, and the privatization program (USAID 1990, 18). All of these reforms involve antagonizing important political constituents. The reluctance of the GOT to reform its economically irrational Labor Code represents another important political constraint. The obstacles to privatization have slowed reform down in that sphere, but even more important has been the reluctance to provide more accountability in bureaucratic procedures. It is one thing to institute technical financial reforms that affect individuals indirectly yet quite another to actually relinquish established patterns of political control that have for many years represented the prerogative of an omnipresent bureaucracy.

In short, the gradual reformism that is reminiscent of Bourguibism (Moore 1991, 67) has yet to overcome three key political constraints. First, vested interests that have relied either upon heavy protectionism or the largesse of the public sector are resisting the implementation of the structural adjustment program. Second, bureaucratic intransigence reflects the importance of levers of control in a political system heavily characterized by patronage networks. Third, the fear of the social consequences of too rapid an implementation of the structural adjustment program has unduly slowed down the process of reform. The failure of the GOT to move ahead with its structural adjustment program more rapidly over the past three years despite exceptionally favorable economic conditions (with a GDP average annual growth rate of over 6.5%) reflects the state's preoccupation with the political threat posed by the Islamic fundamentalists, who seek converts among those threatened by GOT reform policies.

The principal ingredient missing from Tunisia's structural adjustment program record is sufficient investor confidence. For the economic reform package to prove successful, Tunisian savings must be made available and mobilized, and the enduring anxieties of foreign investors must be assuaged. Private investment is essential both for the generation of growth and for successful privatization. Uncertainties continue to plague private investment with regard to the GOT's real commitment to implementing measures favoring private sector development in the long term (such as reform of the Labor Code), the scarcity of experienced Tunisian middle level managers, and the weakness of capital markets (Saghir 1993, 22). Investor confidence is dependent upon credible government policies and mutual trust between the GOT and the private sector. To date, Tunisian savers have expressed much less confidence in the viability of the reform program than have the IMF or the World Bank.

Establishing enough investor confidence to meet developmental challenges will be especially difficult in Tunisia because of a traditionally risk-averse business culture (USAID 1990, 27). Those with political connections have relied on patronage to reduce risks, and those without have remained wary of a capricious bureaucracy that has created an uneven playing field. Furthermore, private sector business owners have relied on family-based business approaches, and lack experience in broader ventures. Investor confidence must hence be nurtured to overcome these obstacles, which requires moving ahead with the relaxation of state dominance.

There is a reluctance to believe that the political system is really becoming more accountable. The overwhelming majority of Tunisians continue to suspect that who you know is more important than what you know. Implementation of the myriad bureaucratic permits for virtually any business activity are notoriously capricious, with stories abounding about how those with political connections sail through such obstacles without delay. Obtaining sufficient infrastructural support such as paved roads to factories can take years for those without well established patrons, and some entrepreneurs have been forced by these delays to pave streets themselves. The bureaucracy continues to involve a high degree of personalism, with the treatment one receives often reflective of one's status in the political hierarchy. While increasing numbers of small private investors have indeed succeeded in contemporary Tunisia without personal political connections, there are strong residing doubts about risking one's savings without the support of a political benefactor.

Finally, potential Tunisian investors also remain wary about the country's future prospects for political stability. For years, there were concerns about the lack of apparent alternatives after Bourguiba's inevitable departure from the scene. Ben Ali's initial success at gaining popular support through promises of democratization, however, has turned stale as the government has felt obliged to back off from such reforms because of the perceived Islamic menace. The high visibility of the campaign against the Islamists along with near civil war conditions in neighboring Algeria serve to reinforce doubts about political order in the short and medium term. If it is to succeed in strengthening the state, the Tunisian regime must enlarge the basis of its constituency beyond traditional loyalists and clients to mobilize the support of those groups that share concrete interests in a liberalized Tunisia. It must also allow more autonomous articulation and aggregation of interests if it is to have credible negotiations regarding further implementation of the SAP.

SECTION IV
DIFFERENTIAL SOCIAL IMPACT OF THE STRUCTURAL ADJUSTMENT PROGRAM: WINNERS AND LOSERS

According to prevailing economic theory, the structural adjustment program should eventually improve the lot of the vast majority of Tunisians. Increased exposure to world market forces should accentuate production according to the country's comparative advantage, which will improve its current account posture while stimulating growth. The gradual replacement of state companies by a dynamic private sector should lead to greater efficiency and productivity, increased international competitivity and eventually higher wages. Above all, the availability of economic opportunity should increase, allowing Tunisians to advance themselves without having to rely upon the state to the degree that they have in the past.

But these rewards currently remain in the realm of the abstract and long term. The initial impact of the reforms will pose hardships on the majority of Tunisians as the country as a whole is obliged to tighten its belt. The process of economic adjustment will necessarily involve considerable social dislocation. Employment opportunities will remain tight as job seekers multiply due to the combined effects of the constriction of opportunities in the public sector and demographic growth. Prices of basic commodities such as food and transport will increase as a result of the subsidy cuts, portending a significant dent in the majority of personal budgets as the state tries to hold down wages in the large public sector. The cost of the accumulated foreign debt will have to be borne disproportionately by the large generation currently entering the job market.

Despite these macro-level social disadvantages, the structural adjustment program offers immediate benefits and opportunity to some segments of the population, and potential hope for others. The agricultural sector as a whole will benefit from price liberalization and heavier investment levels, although the impact of the economic reforms will vary according to socioeconomic differentiations among rural producers. Exporters will gain as that activity has been prioritized for development, and a series of the reforms increase their competitivity. Private importers could take advantage of the reduction of protectionist barriers, and increased employment opportunities in the private sector could offer hope to recent college graduates with marketable skills. Those with a capacity to serve as intermediaries (agencies, interlocutors, facilitators) for foreign ventures will also be rewarded by the reforms as foreign capital is courted.

The extent to which losers from the reforms can aggregate and articulate their interests will determine the effectiveness of their ability to influence particular elements of the reform program. Being fearful of a reaction it cannot control, the GOT has thus been intent on resisting any autonomous attempts by losers to form interest groups or coalitions. This helps to explain the GOT's suppression of the once powerful *Union Generale des Travailleurs Tunisiens* (UGTT). The problem with this strategy is that the regime has eliminated or prevented the emergence of any independent groups with which it might negotiate the implementation of adjustment reforms. The government lacks the political capacity to impose its programs by fiat and yet has closed down credible arenas for negotiations that might facilitate a settlement. The deficient labor-management relations in the public sector has thus contributed to the fears of potential reactions against the reforms, slowing down the application of the structural adjustment program.

The extent to which potential winners also coalesce to form effective interest groups will in part determine their potential to overcome residual political constraints. If economic liberalization is to succeed in promoting sufficient private sector expansion, then new interest groups will have to be able to express and pursue their economic goals independently of the personalized patronage networks that have been so necessary to success in the past. Sufficient political opening must be enacted for private sector investors to fulfil the role set out for them in the structural adjustment program. The GOT is more favorably disposed towards allowing interest articulation among winners than among losers, but more progress is still needed here as well.

An identification of social actors based on their economic interests provides a clearer basis for understanding potential social reaction to the structural adjustment program. The following working taxonomy provides a disaggregation of Tunisian socio-economic groups that allows a specific assessment of the social impact of the structural adjustment program.

A. Public Sector

A1. Bureaucrats

The upper echelon of the bureaucracy continues to represent one of the principal sources of opposition to the TPP and other liberalizing economic reforms. Usually the political background and influence of members of this group protects them, but over time the reform process should reduce their influence as the bureaucracy is made more accountable. They will probably continue to try to influence government policies through traditional personalized means and are unlikely to form new professional associations. The resistance of this group to any substantial relinquishment of their leeway to implement regulations represents a significant political constraint to the objectives of the structural adjustment program.

Lesser civil servants will also lose as a result of the reform process as wages are capped and job security reduced. Their political significance has always been less than the higher level bureaucrats, however, and their resistance to reform will consequently not be as severe. Little new associative activity may be expected from this group.

A2. Parastatal Managers

The impact on this group will be differentiated, with some political cronies liable to lose their positions through privatization, while others are likely to remain sought after for their managerial skills. As managers of public firms become more technocratic and give greater priority to cost efficiency, they are liable to be in a strong position for eventual moves to the private sector. Much depends on their ability to exercise more independence in decision making as the public sector becomes more depoliticized. The increasing number of technocrats that have replaced party hacks in these positions indicates that the negative impact of the structural adjustment program on this socio-economic stratum will be less than commonly forecast.

A3. Public Sector Workers

Public sector workers form a large social group that will definitely lose from the reforms because of capped wages and layoffs intended to render the PE firms more cost efficient. The austerity measures that increase the cost of living will also have a significant impact on this group as basic goods represent a greater proportion of their personal budgets than those of the managerial strata. These workers have a history of organization and mobilization through the trade union movement and represent an important potential obstacle to thoroughgoing reform of the sector, even though the trade union leadership has now been coopted. Given the state's coopting of trade union leadership, this social group may be subject to mobilization in conjunction with other social groups. Unrest among the highly volatile youth could well incite militancy among the workers, and recruitment of public sector labor will remain an area of priority for the Islamists.

B. Formal Private Sector (Industry and Services)

B1. Financiers

The importance of the private banking sector has been growing since the implementation of the macroeconomic liberalization measures. This group should profit from the reforms, especially if private investment and savings respond more positively to the structural adjustment program. This group is small and cohesive enough for associative activity to be likely. Indeed, too much associative activity has already resulted in oligopolistic tendencies regarding interest rates. This socio-economic strata should favor the structural adjustment program because of deregulation and the encouragement of private sector investment. But it nevertheless will be difficult to break down established patterns of oligopolistic behavior.

B2. Big Businessmen

Most of the largest private businessmen historically have grown accustomed to close connections with the inner political circle, and often demonstrate stronger political than business skills. This portion of the private sector has historically benefitted from high levels of protectionism and monopolistic status (Saghir 1993, 22). Sometimes this group is referred to as a "rentier bourgeoisie" because of the benefits accorded to them through exclusive production licenses and monopoly conditions created for them by the state (Bellin 1991, 55). Although the new opportunities for benefiting from private investment should help this group, they are not apt to be too effective in forming independent associations as personalized connections will remain the favored means of influencing government policy and implementation, at least in the short term. However, some new initiatives may be expected from this group, as reflected in the growing dynamism of UTICA (see below). While the enduring power of the large businessmen is limited due to their identification with the crony system, there is much potential for coalition formation among smaller entrepreneurs.

B3. Export Entrepreneurs

The emergent group of entrepreneurs seeking to take advantage of the benefits offered to export production are among those most likely to benefit from the reforms. The currency devaluation should make exports more competitive while wage and import costs should be kept down. Offshore facilities offer reduced customs duties. The numbers of such entrepreneurs will remain relatively small in the short term as Tunisia seeks to establish new niches in the world market. This group has shown some evidence of associative activity through chambers of commerce and other professional groupings, but they are too specialized to be considered a strong influence on their own.

B4. Import Entrepreneurs

Mostly small businessmen have started to take advantage of the relaxation of import controls. But this group will not automatically benefit from these measures because the devaluation will affect Tunisian buying power of foreign goods and the austerity measures will constrict popular consumption of discretionary goods. The domestic market for imported goods at the mass level will thus remain constricted, although industrial inputs and luxury imports will continue to rise. Much of the entrepreneurs' success will thus depend on the type of product imported. For many goods produced locally, international competition will remain constrained. The influence of this group will likely be neutralized by those established businessmen who seek to retain protectionist barriers.

B5. Small Businessmen

This portion of the private sector represents a diversified group that will feel the impact of the reforms in varied ways. Manufacturers producing for the local market are likely to experience a generally negative impact of the structural adjustment program as austerity measures restrict the domestic market. Merchants are also liable to experience some hard times as wage demands increase and as buying power for domestic goods decreases. Moreover, this group is liable to be partially blamed by the public for price increases beyond their control. Those servicing the tourism sector will probably benefit as the GOT continues to develop its tourism infrastructure and as the devaluation makes Tunisian vacations more affordable to foreigners. Due to its diversity, little associative activity might be expected from this group.

B6. Employees

Some short-term losses will be suffered from declining real wages, but if economic growth responds according to projections, numerous new opportunities could be created for recent college graduates and skilled workers. Like the workers in the public sector, this group will likely find themselves more vulnerable if any substantial reform of the labor laws takes place. Associational activity will be resisted by the regime as it will likely lead to opposition against the structural adjustment program.

B7. Intermediaries

Those who serve in an intermediary role on the behalf of foreign investors will grow rapidly in number and are likely to see their importance become more pronounced. The advantages of foreign university training is likely to increase rapidly, as it has been undervalued in the past. The increasing demand for their skills will make them an important social segment, but their associational activity is likely to remain somewhat muted because of their connections with foreign ventures. There has, however, already been quite a bit of associational activity among those who have received training in the system of American higher education.

C. Informal Private Sector

C1. Employers

The impact of the structural adjustment program on this group will vary according to the particular activities concerned and the degree to which economic growth helps revive the domestic market which in the short term will be constrained by austerity. This group will likely feel pressure from wage increases by employees as the cost of living for basic goods rises.

C2. Employees

This group is likely to feel the cutbacks in purchasing power quite severely as they continue to face declining employment opportunities. They will remain a potential source of mobilization for destabilizing elements such as the Islamists and little overt associative activity on their part will be tolerated by the regime.

D. Agricultural Sector

The agricultural sector as a whole is likely to benefit from the economic reforms as a result of price liberalization and an improvement in farmers' terms of trade due to the devaluation of real exchange rates. However, in the past many farmers developed a dependence on subsidies and cheap credit, and hence some will be unhappy with the increased exposure to free market forces (Radwan 1991, 31). In the past, farmers learned to expect the state to deliver goods rather than relying on efficient production. The large farmers especially tended towards courting political connections (Larson 1991, 10).

D1. Capitalist Farmers

Farmers producing for the domestic market should benefit for the reasons stated and because real wages will decrease. Those producing for export will benefit even more as a result of the advantages given to exporters under structural adjustment. Numerous small businessmen have been investing in intensive cultivation in the hopes of benefitting from the new advantages. Most associative activity to date has been through corporatist channels, and new autonomous associations will take more time to emerge, if they do.

D2. Small Farmers and Peasants

Since a large part of this group's activity is in livestock production, they are likely to feel the effects of the austerity measures through a reduction in demand. The price of meat products is already soaring beyond the reach of most Tunisians' daily budgets. Some of the reduction in demand may be offset by rising prices for agricultural produce. Some associational activity may be expected through self help projects such as the AICs, but the state will probably limit such activities to the community level.

D3. Workers

The relatively underpaid agricultural workers will probably feel the austerity measures quite severely unless sufficient new growth in this sector generates considerable additional demand for their services. This is unlikely given the high underemployment in the countryside. The highly seasonal element to agricultural work will discourage mobilization via associations, since such activities require more permanence.

E. Other, Non-Economic Groups

E1. Security Forces

Although the government will certainly seek to retain the loyalty of this group by cushioning any adverse impact of the reforms, the security forces remain an internally differentiated group, with the rank and file of the army likely to see a loss in their buying power. Other special security forces, such as those deployed by the Ministry of Interior, will remain favored given the high anxiety of the regime regarding internal order. Higher ranks will be rewarded for their continued professionalism during difficult times.

E2. Intelligentsia

The already extensive educational system is unlikely to undergo any major expansion given budgetary constraints and this group can expect to see its standard of living squeezed by the austerity measures. The intelligentsia will remain severely underpaid for their training, and elements of this group are likely to play increasingly active and leading roles in opposition movements. The state will continue with its policy of trying to coopt leading academicians, but this strategy also fuels the jealousies and resentments which are already so characteristic of this group. The relatively high underemployment of intellectuals will also make it difficult for them to get ahead.

E3. Students

This group is likely to see its government stipends stretching less far during times of austerity, with little if any increase in student financial support to be expected. Students are already concerned about the lack of appropriate opportunities after graduation despite government encouragements to look to the private sector. Part of the problem remains the structure of the education system, which has exacerbated the shortage of middle level managers by concentrating on a gifted minority (USAID 1990, 32). Although there are moves underway to reform the educational system, such attempts will continue to generate strong opposition by the students. Moreover, student dissatisfaction with the educational reforms is likely to spill over to a more general malaise and agitation against the regime. Reaction to the highly visible presence on campuses of security forces may help generate sympathy towards the Islamists. The students will remain a potentially volatile source of opposition to the structural adjustment program. In addition, Tunisian students tend towards associative activities which will increase their mobilizing potential. However, not all student associations will be opposed to the structural adjustment program. For instance, at the Faculty of Economics, a small number of students have formed an association for investment in the fledgling stock market. Students at the prestigious IHEC (commercial studies) are also likely to better appreciate the potential benefits of the structural adjustment program. But the vast majority of the university students will continue to feel a resentment towards both the regime and the economic reforms.

SECTION V
ARTICULATION AND AGGREGATION OF INTERESTS

The significance of the above taxonomy depends upon the degree to which the various Tunisian social groups are able to articulate and aggregate their interests. This in turn is partly related to the pace and extent of the political liberalization permitted by the state. This section will examine the capacity for associational activity on the part of non-governmental interest groups.

A. The Articulation of Interests

Non-governmental organizations are granted considerable tolerance in Tunisia as long as they are not based on overtly political issues and do not generate a widespread following. Artistic and cultural associations abound and, while monitored, are given considerable freedom in organizing group activities. Business associations, which usually represent the interests of "winners" from the structural adjustment program, are generally seen as non-threatening by the regime and are allowed to form private organizations, such as the Tunisian-American Chamber of Commerce. The water user's associations (AICs) are also welcomed by the regime as they help to offset the costs of the social contract by relying on association funds, rather than state expenditures. Returning former students coming out of a large USAID transfer of technology program have established several competing networks which focus primarily on diffusing information on job opportunities and the difficulties of obtaining proper academic accreditation in the French-biased system.[5]

The non-governmental articulation of interests is regulated by Tunisia's law on associations. The old law of 1959 was updated by Ben Ali in 1988 as part of his political liberalization program. Under the new law, any social, political, or cultural organization must register with the Interior Ministry. If the Ministry does not reply within three months, the new association is free to operate legally.

The result of this opening was a flourishing of non-threatening associations. Tunisia has a proud history of interest group association going back to the founding of the trade union movement (the oldest in Africa) and the creation of the Neo-Destour in 1934. More recently, the internationally renowned Tunisian League of Human Rights (LTDH) was permitted to function openly and enjoyed considerable autonomy for several years. In fact, its members took this autonomy for granted, reflecting a fairly liberal tradition unusual in the Arab world. There are now over 3,000 associations registered with the government.

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5 For Tunisian returnees from North American universities, there is TASK (Tunisian Association for Scientific Knowledge), TSS (Tunisian Scientific Society), and NADHOT (North American Degree Holders of Tunisia).

But since the crackdown against the Islamists began in earnest in the spring of 1991, the Tunisian regime has taken a step backward in regards to this political opening. The LTDH was reined in and shut down after international attention brought up embarrassing disclosures regarding the GOT's record in cracking down on the Islamic Fundamentalist movement. Members of a group formed in 1993 to protest against the continued detention of prisoners of conscience found themselves placed under arrest. The campaign against the Islamists has meant that open political space has actually shrunk, just at the time when the economic reform process is becoming increasingly contingent upon greater liberalization. Without input from independent interest groups, it is highly unlikely that state institutions will be able to decree the effective and far-reaching reform that is required.

Among the winners from the economic reform policies, three business associations stand out. UTICA remains the corporatist champion of the business interests of crony capitalists. The *Institut Arabe des Chefs d'Entreprise* (IACE) groups together around 300 of the elite business community in an interest group of the already influential, with considerable lobbying potential. With less dependence upon the patronage system than the previous two, are the *Association des Jeunes Promoteurs* (AJP), which joins together young and ambitious entrepreneurs, and the *L'Institut de Fondation de L'Entreprise* (IFE), which is yet another business group with considerable capacity for the articulation of private interests. The interest groups that are most likely to eschew traditional patronage channels are those based around recent college graduates or young entrepreneurs to whom established networks of political influence represent little help. Older generations of crony capitalists will likely seek to rely on the more traditional remedy of personal connections.

There are several factors, however, which mitigate against the effective articulation of business interests through associations. The Tunisian political system is still personalized enough for the importance of direct contacts to remain paramount for some time, even with a liberalization of the political system. Secondly, the widespread practice of tax fraud by businessmen discourages too much activism in politics because the risk of retribution is too high (Bellin 1991, 62). In addition, private associations do not have much freedom in expressing their viewpoints in the public media. Private opinions are not considered a threat by the regime, but public discourse is carefully monitored and controlled. This poses a severe handicap in terms of potential coalition building around common interests.

B. The Aggregation of Interests

The authorities are much less tolerant when it comes to the formation of coalitions leading to political parties or popularly based movements. Moreover, such coalition building tends to be inhibited by the Tunisian tendency towards personal rivalry in heading such associations or parties. With the means of free communication denied, what tends to take place is not coalition building, but the pursuit at the elite level of strategic personal alliances as substitutes.

Since independence, the ruling party has tried to establish and maintain a monopoly over the aggregation of interests. The Neo-Destour (the precursor to the RCD) gathered under its umbrella all the members of professional and nonprofessional organizations that it could (Vandewalle 1991, 107). The important trade union, the UGTT, maintained a certain autonomy throughout the 1960s and 1970s, but relations with the state gradually became increasingly strained, resulting in violent unrest in 1978. In the mid 1980s, the GOT used its influence to force a change in the leadership of the union, and since then the UGTT has been relatively malleable to the state. Given the present circumstances, the union leadership is not likely to pose too severe an obstacle to economic reform, so the workers themselves may become more susceptible to other political movements that claim to represent their interests. The 1984 bread riots were started and organized by teenage boys from poor families, with workers joining in later on (Ferchiou 1991, 104).

As the ruling party ossified with time, calls for greater political liberalization multiplied. President Bourguiba began to permit a semblance of opposition parties towards the end of his rule; there were three legally recognized opposition parties (the MDS, PUP, and PCT) before the change in presidency in 1987. Since then, President Ben Ali has recognized three other parties, the PSP, the RSU, and the UDU. It is more significant that there has been no recognition of the POCT or Nadha. The Islamist Nadha is the only organized opposition to the regime with a widespread mass base. After Ben Ali's takeover in 1987, the movement tried to present a moderate image and requested legal status before the 1989 elections. Towards this end, they even changed their name from the *Mouvement de Tendance Islamique* (MTI) to Nadha (Renewal) in order to conform to the government's ban on the use of religious appeals by political parties. Nadha leaders cite the GOT's refusal to allow them free participation in the 1989 elections as the principal reason the group turned to more militant tactics in the early 1990s.

The GOT's selective legalization of political parties is symptomatic of its resistance to coalition building it cannot control. It is willing to tolerate opposition parties as long as they remain divided and ineffectual, and lack any popular following. For instance, there are currently moves underway to form a coalition from secessionist activists drawn from the PSP, MDS, and former members of the LTDH, in what they have termed the Forum Democratique. The government controlled press has shown signs of disapproval by tainting them with the label of Islamists, a charge the activists strongly deny.

The opposition parties are strongly critical of Tunisia's single ballot, winner-take-all electoral system, which heavily favors the ruling party. As a result of the electoral system, the RCD ended up in control of all 141 seats in the National Assembly. The Islamists, running as independents, officially received 14% of the votes overall, winning over 25% of the votes in eight of the country's governorates (Vandewalle 1991, 113). Under a proportional representational system, this would have given them over 20 seats. Nadha claims its candidates actually won much higher returns than showed by the official figures, and that falsified election returns masked outright majorities in several districts, such as Ben Arous and Sousse. The winner-take-all electoral system along with the complaints over the GOT's handling of the elections were enough to lead all the opposition parties to boycott the municipal elections of May 1990. The government is now attempting to revise its electoral code in order to introduce more of an element of proportional representation into the system before the 1994 elections, but the details of the reform plan have not yet been released.

In short, the aggregation of interests has been discouraged through the difficulties in obtaining legal recognition and through the ineffectiveness of pursuing one's interest through the ballot box. The accountability of policy making institutions remains weak, which tends to channel efforts to influence policy towards informal channels. Formal policy making institutions are not responsive to independent interest groups without approval from on high. Informal appeals via those with access to the inner circles of power have thus far proved more effective than efforts to form legal opposition parties. Decisions regarding government policy and its implementation remain closely tied to the patronage system.

The state has made a modicum of effort to create some circulation of ideas through government organs. The Economic and Social Council was created by Bourguiba to provide advice to parliament on social and economic aspects of legislation, with the members appointed by the president. The Constitutional Council, with members also appointed by the president, was formed by Ben Ali to advise him of the constitutionality of bills submitted to parliament (Harik 1991, 11-13). The parliament is hampered by weak research capabilities because of small staffing, with the dominance of the party paramount. Ben Ali initially sought to replace old time party hacks (who resisted his economic reforms) with technocrats, but he met with strong opposition in these efforts (Vandewalle 1991, 112). The RCD itself remains a top down organization, despite the fact that its membership increased by 50% in the aftermath of Ben Ali's takeover of the presidency (Moore 1991, 90).

The judiciary branch's lack of autonomy further contributes to the concentration of power. Even the judges of the highest court, the Court of Cassation, are appointed by the chief executive. The judicial system is known for reflecting political priorities and needs to be made more autonomous if it is to protect adequately the property and associational rights of interest group members. Efforts are underway to train more judges according to Western concepts of impartiality, but the problems stem not from inadequate training, but from the structures in which the judges operate. Paramount among the difficulties with the judiciary is its lack of independence from the executive branch.

Restrictions on the right of public expression are another powerful deterrent to the aggregation of interests. Tunisia is notorious for its lack of a free press, even in comparison with troubled Algeria. Although Ben Ali initially made promises to liberalize the press laws, there remain clear limits on what can and cannot be said. A pattern of uncodified self-censorship has emerged, reinforced by the fact that the legal opposition press is granted close to a 50% subsidy on newsprint, which can easily be revoked by the GOT (Harik 1991, 14). During the state's crackdown on the Islamists in 1991, among the key objectives in the house to house searches of the popular neighborhoods were printing material and political tracts.

SECTION VI
POLITICAL LIBERALIZATION AND STATE STRUCTURES

Although President Ben Ali has publicly committed his government to pursue profound democratizing reforms, it is clear that the actual process of political liberalization will be much more modest and carefully controlled. The sequencing of political liberalization favors winners over losers. The state is clearly more wary of associative activities by losers from the structural adjustment program than with groups of prospective winners. Groups of winners tend to be smaller in size with a stake in the sustained stability of the system. Attempts to mobilize losers tend towards mass appeal and as such are resisted by the regime, which jealously guards the prerogative of representing the interests of the common Tunisian. Access to influence will first go to those with an interest in the reforms, but it will be difficult to diminish the importance of personalistic connections.

Business groups are thus given more leeway than other interest groups, but there is considerable effort at corporatism even here. UTICA, which is often trumpeted as the most active expression of private interests, was created by the ruling party and essentially remains within the party system. Under the leadership of Hedi Jellani, UTICA has become an important source of financial support for the RCD as it seeks more influence through the personal connections that created the class of crony capitalists in the first place. While some analysts imply that increased funding of the RCD from businesses will enhance the influence of such groups (Bellin 1991, 62), others note that they remain under-represented on the RCD Central Committee (Moore 1991, 91). The international chambers of commerce, such as the Tunisian-American Chamber of Commerce essentially represent state sanctioned public relations organs which attempt to attract more foreign investment. The domestic chambers of commerce, especially those of Sfax and Tunis, are more dynamic, but even they remain closely linked to the powers that be. The AJP is noteworthy in that it attempts to combine the interests of young entrepreneurs who lack the benefit of personal connections with those of more established businessmen.

Tunisia's political liberalization program is also characterized by a severe compartmentalization of access. The RCD holds all seats in parliament and is not likely to allow other representation at high levels of decision making. At the other extreme, the AICs (rural water users' associations) have not necessarily been run according to allegiance to the party although party members will often occupy leadership positions. The line of tolerance seems to be established at the municipal level, where the lesson of Algeria is paramount. In Algeria, the Islamic Fundamentalists were allowed to gain power at the municipal level as a first step in their growing success at the polls. The GOT is not likely to permit such an experience to replicate itself, and it will resist any profound liberalization at the municipal level. In the municipal elections of 1990, only one was taken over by independents, while challenges to the RCD rule in Ksar Hellal (the symbolic birthplace of the Neo-Destour) by a PSP grouping of small businessmen was met by strong arm repression. Liberalizing reforms at the municipal level may extend as far as garbage removal in an attempt to reduce GOT expenditures, but not much further. The municipal government is inextricably linked to the party/state administration, with all key economic and security decisions coming down from above.

The state is most likely to allow non-party representation at either symbolic levels (designed to appease opposition and foreign opinion) or at local levels such as the AICs. Part of Ben Ali's political liberalization program has been to include independent figures in his cabinet. However, despite the increased recruitment of independent individuals within the government, their placement and influence has been largely inconsequential. The ministerial portfolios accorded LTDH members and other liberals in April 1989 reflected this trend, with the independents gaining access to the less critical Ministries of Health, Youth and Sports, Culture and Information, Education, and Social Affairs (Waltz 1991, 37).

At the more local extreme, the recent encouragement of the *Comites de Quarters* represents little more than the enhancement of top down levers of controls. These neighborhood committees are the resurrection of the loyal citizen militias established under Mohamed Sayah in the late 1970s to ensure control at the local urban level, at a time when the regime was worried about the leftists and unionists. Although championed by the state as examples of self-help organizations, these committees are regarded by most citizens as vigilante groups charged with information gathering at a local level. The committees' nature as a control mechanism naturally becomes more evident as one moves down the socio-economic ladder.

The risk factor is of utmost importance in evaluating the GOT's concerns about political liberalization. Given the political context of nascent Islamism and declining state legitimacy, the regime will firmly resist changes that might lead to setbacks in its campaign against the fundamentalists. The other principal factor inhibiting political liberalization is the opposition of those with vested interests that derive their privileges from their positions in the patronage system. The move towards any significant liberalization will be fiercely resisted by many political insiders, as was discovered by Ben Ali in his initial attempts to reduce their role.

SECTION VII
ACCOUNT OF EXECUTIVE BUREAUCRACY

The enhancement of bureaucratic accountability is essential to improving the investment climate for the private sector. The implementation of bureaucratic procedures is significantly arbitrary and capricious in Tunisia, as elsewhere in the Arab world. While in Tunisia, there is neither evidence nor a tradition of systematic corruption, favoritism remains a fundamental aspect of the patronage system. Although individuals without access to the patronage network often do succeed in their business ventures, they risk being subject to unreasonable delays and other hidden costs. Basic inputs such as a business telephone line can literally take years to obtain unless one has a friend at court. Processing permits to open new enterprises can represent a lengthy and tortuous process that must be figured into investment costs. For entrepreneurs looking to offshore markets, obtaining customs clearance has not proved as easy as the SAP objectives would warrant.

Lack of investor confidence in the accountability of the Tunisian bureaucracy has been a principal factor in the failure of the structural adjustment program to spur enough private investment to meet the country's developmental challenges. It remains an uncodified given of the political system that those with political influence can bend the laws to their own needs, and those without such influence may or may not run into trouble. President Ben Ali has made the reduction of red tape and improved bureaucratic performance among his most publicized objectives, often performing televised personal inspections of the customs offices or public hospitals, for example. But the president's efforts at sustainable reforms in this domain have been thwarted at the implementation stage. Perhaps the greatest degree of bureaucratic reform has taken place at the API, where the restrictions and requirements for starting businesses have been scaled down and streamlined. But the obstinate resistance to change by the rest of the vast bureaucracy has led the president to announce the formation of undercover citizen inspectors to try to enforce better bureaucratic accountability. Given the bureaucracy's importance to the patronage system, successfully increasing accountability will be one of the most difficult liberalizing reforms to carry out.

In theory, bureaucratic accountability is associated with the rule of law. But in the context of contemporary Tunisia, virtually all debate regarding the rule of law has been in reference to the government's campaign against the Islamic Fundamentalists. If the GOT is to create a favorable investment climate, it must address the issue of bureaucratic accountability head on. Unfortunately, the constitutional distribution of power mitigates against effective oversight of the bureaucracy. Neither the legislature nor the judiciary provides any means of redress or even investigation of an arbitrary bureaucracy. The lack of any clear cut separation of power makes it difficult for citizens and investors to seek redress of their grievances.

SECTION VIII
CONCLUSION

The issue of governance is key to the sustainability of Tunisia's liberalizing economic reforms. If the state is to successfully relinquish some of its control and management of the economy to the private sector, independent interest groups representing private interests must be allowed greater weight in policy making. To effectively accommodate the needs and concerns of private investors, the GOT needs to become more responsive to expressions of their interests. Nongovernmental associations represent one promising avenue for such an expression if the stranglehold of the patronage system over economic development is to be broken. Greater freedom in coalition building among such groups is important to their perceived importance by the state. Tunisian policy making institutions must become more receptive to inputs outside the dominant patronage system, even if these inputs are selectively sequenced.

For an effective articulation and aggregation of interests to occur, a relaxation of controls over expression through the media must take place. The moderate opposition parties could help in the process of political liberalization if their *de jure* recognition is accompanied by *de facto* tolerance of their efforts to improve their following. Advocacy organizations in the form of non-governmental associations may have an even more important role to play in the short term because of the state's reluctance to open the stage to real multi-partyism. If the National Assembly were ever to be released from the stranglehold of the RCD, it might be able to play a more active role in ensuring the rule of law, and at least could provide a forum for much needed debate.

The polarized political context of contemporary Tunisia makes it difficult for the state to advance the process of political liberalization, given the perceived threat of Islamic fundamentalism. The Islamists seek to exploit mass discontent with the social impact of the SAP along cultural grounds, without having to offer an alternative economic program. In the short term, the majority of Tunisians will lose from the SAP, and the GOT will not be able to assuage their concerns without allowing the emergence of some groups with which it can engage in dialogue. The phenomenal growth of the Islamist movement in Tunisia over the last decade strongly suggests that the recent increase in repressive tactics by the regime will not be able to stem its appeal over the medium term.

To meet the developmental challenges posed by the growing need for jobs, food, and money, the Tunisian state must reduce its control over the economy to allow more room for the private sector. But private investors will not step forward to fill the gap unless they have sufficient confidence in the country's prospects for political stability. The political liberalization component of Tunisia's reform program is thus extremely delicate, and it must be managed in such a way that it does not lead to unanticipated consequences that encourage destabilization, as in the case of Algeria.

Supporters of political liberalization in Tunisia must take these constraints into consideration in designing any assistance program. The process of political liberalization will remain markedly sequenced and quite compartmentalized, especially in the short and medium term. There is little to no likelihood that any broad-based democratization will be implemented in the near future. But much can be done to foster the confidence of important social groups within the private sector. The more active participation of groups of winners from the SAP in governance is essential to long-term stability. More meaningful dialogue and negotiation with groups of losers could actually facilitate the implementation of the remaining adjustment measures.

There is room for some optimism given the GOT's past tolerance of private associations and the state's clear commitment to the path of liberal reform. Yet the political constraints to political liberalization and bureaucratic accountability remain severe. Like the economic reforms, this process of change must be gradual and will likely be generational. The term "Bourguibism" was coined to describe the Tunisian aptitude towards such gradual change, and future reform in that country is also likely to reflect this tendency.

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TABLE 1

AGGREGATE DATA ON 40 MAJOR PEs
(TD mn)

	1981	1982	1983	1984	1985	1986
Employment(workers)	104,057	107,004	109,293	109,408	108,086	107,346
Value Added	554.8	570.2	702.2	816.6	796.6	798.7
Revenue	1,198.8	1,388.4	1,672.8	1,842.2	1,984.8	1,950.6
Exports	299.3	332.3	373.4	411.1	408.0	397.2
Net Profit/Loss	39.3	-12.2	-50.2	-6.8	-31.6	-168.3
Excluding Oil PEs	-11.9	-71.1	-103.2	-84.8	-122.5	-221.5
Cash Flow	176.5	138.3	124.5	200.5	180.0	61.9
Total Debt	1,676.8	2,037.3	2,495.7	2,722.4	2,837.9	3,165.8
Short Term Debt	858.1	1,029.4	1,295.4	1,438.4	1,534.0	1,763.1
Long Term Debt	818.7	1,007.9	1,200.4	1,284.0	1,303.9	1,402.8
Investment	267.9	453.1	376.3	468.5	355.1	279.9
Transfers to PEs*	88.8	107.7	100.5	124.7	135.1	117.3
Taxes/Duties	71.5	76.4	94.3	112.6	113.0	111.9

* Subventions, loans and equity. Source: Saghir (1993), p. 6.

TABLE 2

BALANCE OF PAYMENTS
($ mn)

	1985	1986	1987	1988	1989	1990
Merchandise exports fob	1,700	1,763	2,101	2,399	2,931	3,515
Merchandise imports fob	2,567	-2,698	-2,829	-3,496	-4,139	-5,193
Trade balance	**-866**	**-934**	**-728**	**-1,097**	**-1,208**	**-1,678**
Exports of services	972	955	1,242	1,848	1,552	1,680
Imports of services	-639	-617	-607	-703	-726	-848
Inflows of IPD*	40	29	25	54	77	105
Outflows of IPD*	-400	-450	-512	-553	-554	-567
Net private transfers	259	354	481	547	485	593
Net official transfers	48	45	37	118	215	215
Balance current account	**-587**	**-618**	**-60**	**213**	**-160**	**-500**

* Interest, profits, and dividends. Source: EIU Country Profile 1992-93, p. 24.

TABLE 3

EXTERNAL DEBT
($ mn)

	1985	1986	1987	1988	1989	1990
Total external debt	**4,880**	**5,896**	**6,758**	**6,728**	**6,860**	**7,534**
Long-term debt*	4,698	5,486	6,233	6,117	6,214	6,724
Short-term debt	182	227	255	335	376	634
Use of IMF credit	-	183	271	277	270	176
Public disbursed debt*	**4,453**	**5,236**	**6,007**	**5,882**	**5,989**	**6,506**
Official creditors	3,038	3,614	4,320	4,244	4,533	5,237
Multilateral	*826*	*1,130*	*1,523*	*1,557*	*1,804*	*2,219*
Bilateral	*2,212*	*2,484*	*2,797*	*2,687*	*2,729*	*3,018*
Private creditors	1,415	1,622	1,687	1,638	1,456	1,269
Bonds	*60*	*60*	*60*	*60*	*60*	*0*
Commercial banks	*491*	*562*	*471*	*396*	*322*	*224*
Private non-guaranteed debt	**246**	**250**	**226**	**235**	**225**	**218**
Total debt service	**746**	**876**	**1,096**	**1,057**	**1,094**	**1,519**
Principal	475	550	729	649	669	1,058
Interest	271	326	368	408	424	462
Total ext. debt/GNP (%)	**61.6**	**70.0**	**73.7**	**69.9**	**70.7**	**62.4**
Debt service ratio† (%)	**25.0**	**28.2**	**28.4**	**21.8**	**21.7**	**25.8**

*Maturity over one year.
†Debt service as a percentage of exports of goods and services.
Source: EIU Country Profile 1992-93, p. 27